

PropTech

India Monitor

2022

Charging through the pandemic
in India

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PROPTech – ‘THE NEW NORMAL’

PropTech – ‘Property’ + ‘Technology’ is an acronym used for describing the digital transformation and the use of technology innovations to disrupt the organic real estate space.

Today, technology has become the backbone of all industries. Various key factors such as rapid urbanisation, rise in disposable incomes, focus on digitisation, and the proliferation of smartphones and the internet have played a pivotal role in driving this shift. The real estate industry, although a straggler compared to others, is no exception to this disruption.

A global mop up suggests that while real estate in developed countries such as the US and European countries has already undergone a sea of change with technology seeping deep into the demand and supply chain, the eastern countries like China and India have onboarded the PropTech bandwagon in the recent years.

The sheer size of the population and exponential rise in internet users has led to a boom in digital platforms across sectors in these countries. For instance, India currently stands a close second to China in terms of the number of internet users, which is expected to reach 866 million by the end of 2022¹. Businesses in India have also started using digital platforms and technology ubiquitously to augment the functions as well as to reach out and keep pace with the evolving consumer needs.

The trend has also trickled down in the Indian real estate industry, where PropTech firms have emerged to address the unmet need for planned business information and management, optimising processes, enhancing outreach and improving the consumer experience in an amorphous and fragmented market. The technology penetration, which was relatively slow as compared to other industries, has gathered momentum, especially since the onset of the pandemic, where it became necessary to adopt digital ways to overcome the challenges of executing transactions and operations remotely and reaching out to the fence-sitting consumers.

The push for the digitisation and growing stakeholder confidence during the pandemic has manifested into the bull run of private equity investments in the PropTech firms, which reached an all-time high of USD 0.7 billion in 2021². This high-water mark comes after a record-high year of private

investments in the PropTech, which had reached USD 0.5 billion in 2020. With this, the PropTech industry in India has received a total of USD 3.2 billion in private funding between 2009 to 2021. In fact, the investments in PropTech grew at an impressive 55 per cent (CAGR) between 2010-2021, compared to a 20 per cent growth in total private equity investments received across industries during the same period.

In India, private equity investments in PropTech firms have been growing at a CAGR of 55 per cent and reached an all-time high of USD 0.7 billion in 2021.

Our analysis indicates that the tech firms under sales and marketing, and construction technology led the PropTech rally in 2021, accounting for 69 per cent of the USD 0.7 billion investments received during the year. Despite the highest share of 33 per cent in the total USD 3.2 billion PropTech investments, the shared economy witnessed a slowdown in 2021 due to social distancing, and remote and hybrid working policies taking precedence during the pandemic.

While the segment-wise dynamics have varied over the years, the overall investment and market trends suggest growing investors and consumer's confidence in the real estate tech platforms. For instance, Housing.com's IRIS index, which gauges the online property search volume in key cities of India, has sustained growth momentum despite the pandemic.

Moreover, the adoption of new-age technologies such as artificial intelligence, machine learning, augmented reality, and blockchain continues to transcend the limits and open up new opportunities in the real estate sector, thus painting a positive picture for the sector in the coming years. With this background, let us dwell deeper into the trends and insights seen in the PropTech space in 2021.

¹ITU, Housing Research

²Venture Intelligence, Housing Research

3.2

USD billion invested in PropTech
between 2009 to 2021

55%

CAGR growth in investments
between 2010 to 2021

255

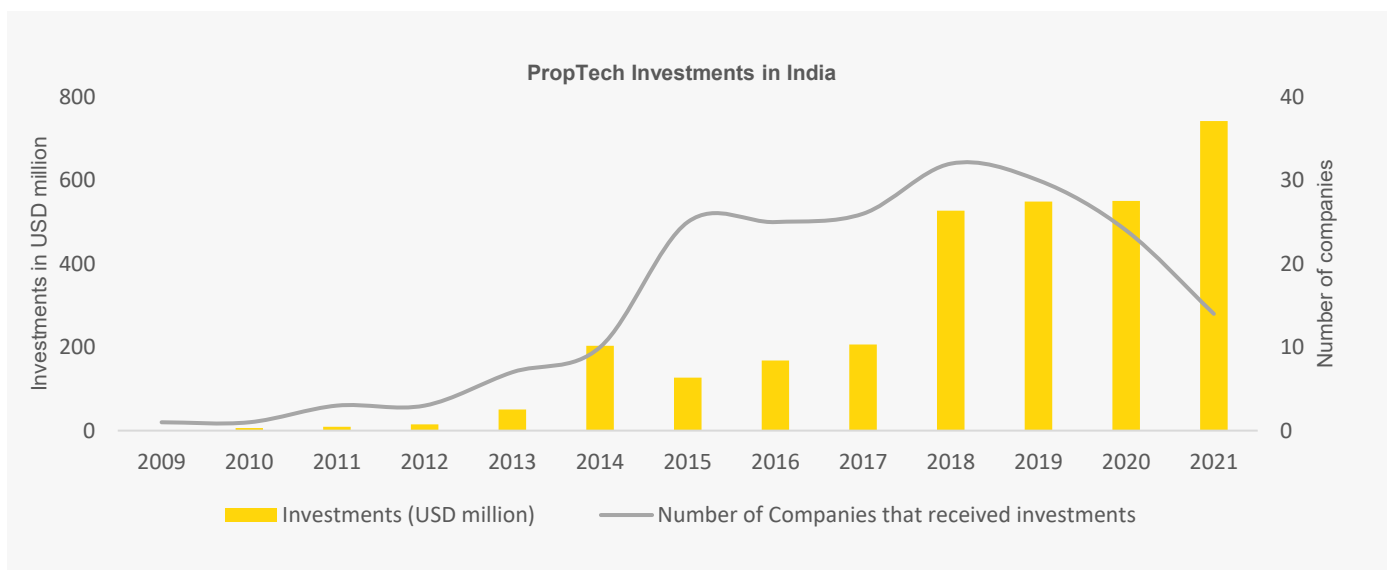
Deals between 2009 to 2021

0.7

USD billion investment in 2021 -
highest till date

INDIA PROPTech TRENDS – 2021

The PropTech industry in India attracts the highest ever private equity investments in 2021



Source: Venture Intelligence, Housing Research

The investments tracked include private equity, venture capital, debt, PIPE (Private investment in public entity), project level investments, pre-IPO private equity deals, at the early, growth and late stage.

In India, while the growth momentum for private funding in the PropTech remained stagnant in the previous two years, it recorded a 35 per cent YoY growth in 2021, reaching a record high of USD 741 million.

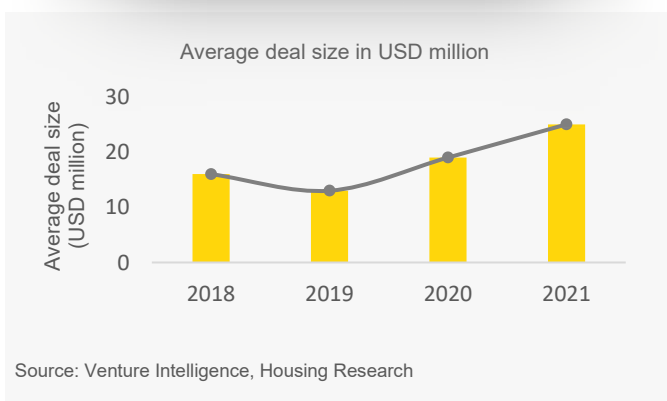
Interestingly, the number of companies that received investment has been the lowest since 2015. However, this has pushed the average deal size to an all-time high of USD 25 million, which is an indicator of confidence in the growth, scalability, and profitability of the PropTech firms in the coming years.

The growing investor confidence pushes the average deal size of private equity investments in PropTech to reach an all-time high of USD 25 million in 2021.

SEGMENT-WISE DYNAMICS

The segment-wise insights in PropTech for 2021 suggest that construction technology, and sales and marketing took the highest share of 36 per cent and 33 per cent, respectively. The share of both these segments has recorded a significant rise as compared to 2020.

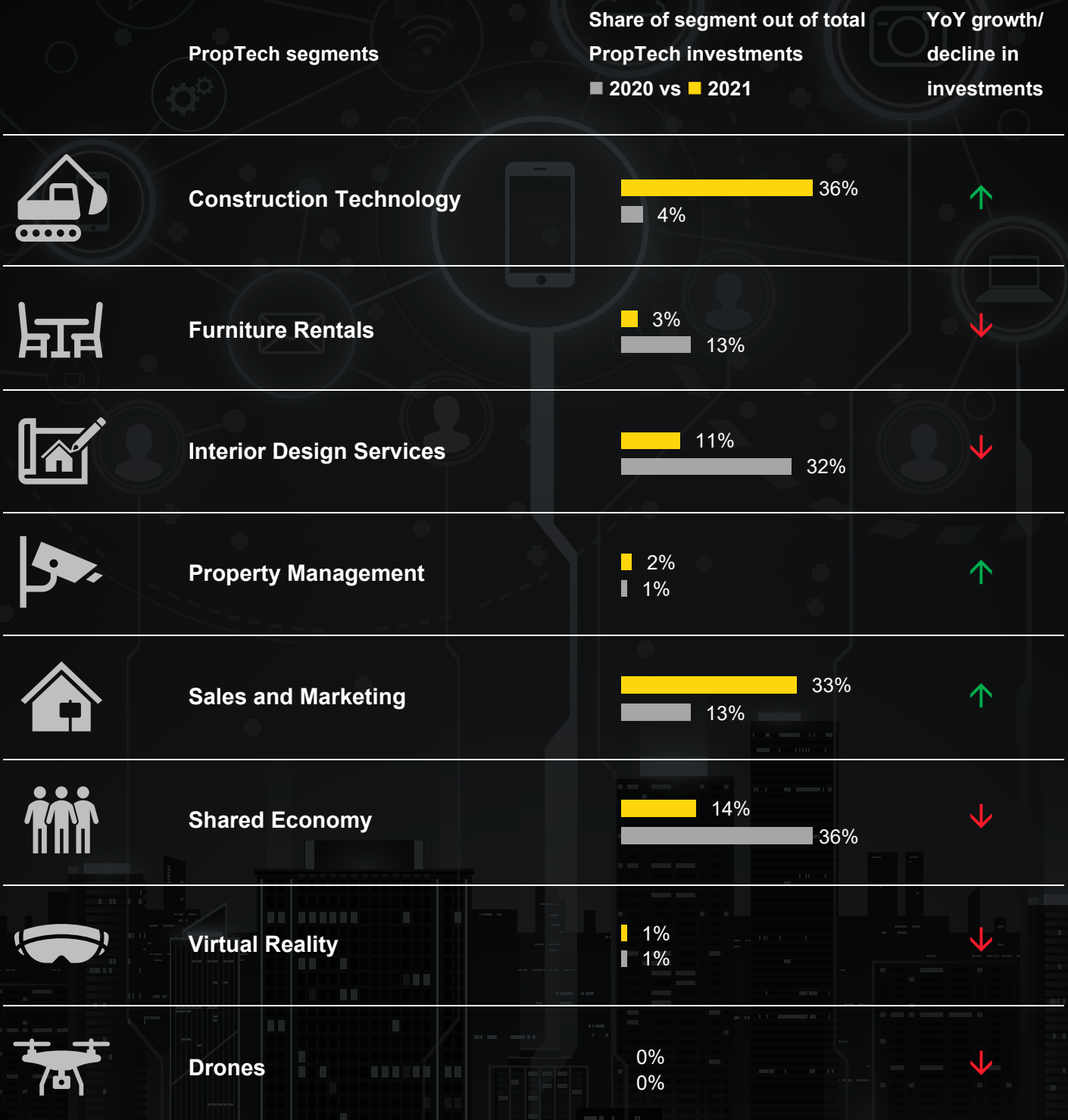
On the other hand, the growth in the shared economy, interior design services, and furniture rentals has slowed down. Compared to the preceding year, the share of these segments shrunk significantly in 2021. In the case of shared economy, factors such as changing consumer needs during the pandemic amidst the prerequisite of social distancing hampered the growth in the segment. In contrast, the dip in investments in the case of interior design services and furniture rentals stemmed from the market being dominated by a few big players and the aggregation of such services under one platform by the existing PropTech firms.



Source: Venture Intelligence, Housing Research

Sales and marketing, and construction technology firms dominated the PropTech space in 2021

Segment-wise share of flow in PropTech in India



Source: Venture Intelligence, Housing Research

Total PropTech investments in 2021 stood at INR 742 million and at INR 551 million in 2020.

The investments tracked include private equity, venture capital, debt, PIPE (Private investment in public entity), project level investments, pre-IPO private equity deals, at the early, growth and late stage.

Sales and marketing sustain growth momentum

The trends for the last decade convey that sales and marketing (or business platforms), and the shared economy have emerged as the blue-chip segments in the PropTech space. The shared economy takes the highest share of 33 per cent in the overall USD 3.2 billion investments between 2009-2021, closely followed by sales and marketing with a 28 per cent share.

Although the shared economy takes a major chunk of the pie, the segment has witnessed a degrowth of 47 per cent YoY in the private equity inflow in 2021, owing to the structural shifts brought in by the pandemic. The consequent waves and ensuing lockdowns, along with the social distancing norms and remote and hybrid working models, have resulted in negative demand for such spaces. Although, the opening up of offices, reduction of curbs, and focus on hybrid working signal a positive turnaround for the shared economy segment.

While the shared economy felt the pinch of the COVID-19 pandemic, the sales and marketing segment thrived during the same period. The segment recorded a triple-digit growth of 244 per cent YoY in private equity investments in 2021. Not only this, but the segment also received the highest ever investment of USD 241 million from a rather modest start of less than a million in 2009.

The pandemic was a game-changer for the sales and marketing segment as digital business platforms became indispensable for the stakeholders to reach out to the consumers confined in their homes amidst the nationwide or local lockdowns. Also, while the search for a property mostly began online, the pandemic encouraged the consumers to explore such platforms more extensively and complete the subsequent processes online as well.

Corroborating with this, our survey³ suggests that a significant 40 per cent of the potential homebuyers opined that they are willing to buy a property completely online or just after one site visit, up from the 37 per cent during the first wave. Such digital business platforms are now going a step further and aggregating the ancillary services such as interior design services, furniture rentals, rental agreements, and property management, amongst others, to enhance the consumer experience.

The fact that the investment momentum in sales and marketing has gathered pace even as the impact of the pandemic is alleviating, and restrictions being reduced significantly is a testament to digital platforms having become the mainstay for stakeholders and consumers while selling or buying a property.

Investments in sales and marketing grew 3 times in 2021

| PropTech Segments | Private equity investments (USD millions) | | |
|-------------------|---|------|--------------|
| | 2020 | 2021 | YoY % change |
| Sales & Marketing | 70 | 241 | ↑ 244 |
| Shared Economy | 198 | 104 | ↓ 47 |

Source: Venture Intelligence, Housing Research

³Residential Realty Consumer Sentiment Outlook H1 2022, Housing Research

THE SUNRISE SEGMENTS OF PROPTech

1. Construction Technology

Construction Technology took the highest share of 36 per cent in the private equity inflows of USD 742 million received in 2021. It also has the largest average deal size of USD 53 million compared to the other segments in 2021. The soaring need for planning, management and optimisation of construction processes has fuelled the demand for such services amongst the stakeholders.

Such construction technology platforms offer comprehensive B2B services and tools for material procurement, optimisation of material use, tracking the project progress, and effective allocation of resources, thus improving the construction quality and efficiency.

Also, the major developers dominating the markets post the consolidation due to the structural changes, such as Real Estate (Regulation and Development) Act (RERA) and Goods and Services Tax (GST), have high budget portfolios and can invest in construction technology platforms to optimise processes as opposed to retail developers.

Moreover, amidst the upward inflationary pressures and rising input costs, such platforms have gained even more prominence to reduce wastage of materials and augment the processes. The rising demand and popularity of such platforms indicate that the segment is poised to maintain a positive rally in the coming period.

2. Property Management

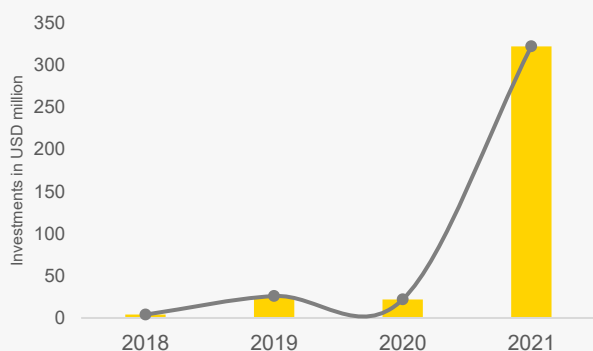
In 2021, the private equity inflow in property management firms increased five times YoY, reaching a new high of USD 98 million. The growth comes on the back of an increased need for operational efficiency to improve the consumer experience, bear proactive maintenance, enhance energy efficiency and monitor the building systems.

Also, the rise in importance of safety and security during the pandemic has brought focus on such smart property management systems where people can authorise entries, pay bills, and facility managers can automate and simplify manual processes of handling offices and residential communities, all while confirming to the prerequisites of social distancing.

As residential communities and workspaces continue to adopt digital property management services, such platforms have started to integrate allied services such as grocery delivery, home services like house help and appliance repairs, movers and packers and also diagnostic testing services as health has taken centre stage.

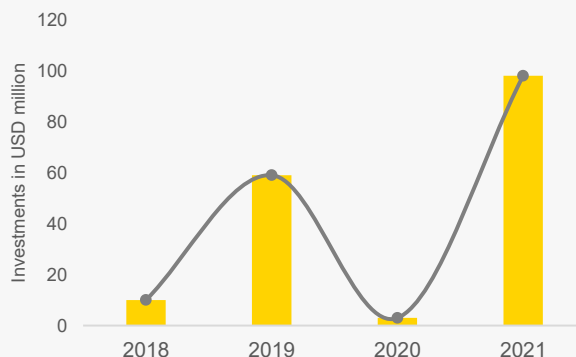
Such online property management firms are also tying up with sales and marketing companies, which are now moving towards providing a full-stack model, where both sellers and buyers can access all the services related to real estate on one comprehensive platform.

Private equity investments in Construction Technology



Source: Venture Intelligence, Housing Research

Private equity investments in Property Management



Source: Venture Intelligence, Housing Research

KEY INSIGHTS

- PropTech investment in India clocked USD 741 million in 2021 – a record high, compared to USD 551 million in the preceding year.
- With a total investment of USD 3.2 billion, PropTech investments have grown by a CAGR of 55 per cent (2010-2021), compared to a 20 per cent growth in private investments received across industries during the same period.
- The growing investor confidence has pushed the average deal size of private equity investments in PropTech to an all-time high of USD 25 million in 2021.
- Segments such as Construction Technology, and Sales and Marketing lead the PropTech space by taking a share of 36 per cent and 33 per cent, respectively, in overall private investments in 2021.
- Sales and marketing or online business platforms are one of the most preferred segments for investments, where private equity inflow grew to 244 per cent YoY in 2021.
- While the shared economy takes the highest share of 36 per cent in USD 3.2 billion investments in PropTech received between 2010-2021, the segment witnessed a degrowth of 47 per cent YoY in the private equity inflow in 2021, owing to the structural shifts such as work from home and hybrid work policy brought in by the pandemic.
- Our homebuyer outlook survey suggests that 40 per cent of potential homebuyers are ready to buy a home completely online or close the deal after just one site visit in H1 2022 compared to 37 per cent in H2 2020.
- Construction Technology and Property Management have grown into the sunrise sectors in the PropTech segment. Where construction technology took the highest share in overall private investments in 2021, the equity inflow in property management firms grew 5 times YoY during the same period.

PROPTech TRENDS TO WATCH OUT FOR IN 2022

The advancement and adoption of new technologies have led to massive tectonic shifts in the global real estate space, and Indian real estate has felt those aftereffects too. While the property search and several services such as interior design, construction technology, and property management, amongst others, are going digital, upcoming technologies such as metaverse and Web 3.0 built using blockchain are set to disrupt the real estate space in the coming period.

For instance, real estate in the metaverse is a virtual ecosystem where users can interact with each other, and buy and sell a unique and non-replicable digital land through cryptocurrencies and digital wallets similar to the real world. Such transactions are recorded as tradable digital assets using blockchain technology, which in simple terms is a

digitised record-keeping technology, enabling tracking records and transactions in real-time across a network of computers. Several corporates, retail giants and private investors are fast catching up with this trend. The colossal rise in interest in metaverse globally has also trickled down in India. Since 2021, firms providing metaverse technology services across industries, including real estate, have received US \$156 million as private investments.

While such innovative technologies are relatively new and yet to gain ground in India, they are poised to open up a myriad of opportunities in the real estate sector, which is already undergoing a sea of change due to the acceleration in the adoption of digital platforms and services during the pandemic.

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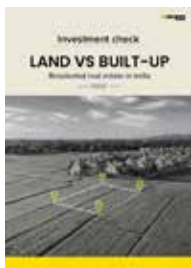
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